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FM AMEMBASSY LUSAKA  
TO RUEHC/SECSTATE WASHDC 5588  
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

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FOR AF/S M.SHIELDS  
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USDOC FOR 4510/ITA/IEP/ANESA/OA R.TELCHIN

E.O. 12958: N/A

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SUBJECT: U.S. Businesses' Views on Zambia's Power Problems

Refs: A) Lusaka 302; B) Lusaka 91

11. (SBU) Summary. At a recent American business roundtable gathering hosted by Ambassador Martinez, U.S. investors and local representatives of U.S. companies shared opinions and voiced frustrations over the electric power situation in the country. Overall, and not surprisingly, businesses are angry and disappointed with the parastatal ZESCO, and do not see any prospects for improvements. Some are taking steps to increase captive power generating capacity, while others are trying to use political influence to receive special treatment from the government and from ZESCO. End summary.

12. (SBU) At a March 5 gathering of a group of U.S. investors and representatives and agents of U.S. companies, Ambassador Martinez asked the assembled businesspersons how the electrical power situation, particularly outages, have affected their operations. One small investor who sells and services a wide range of IT, electrical, and other equipment, reported a tremendous rise in demand for uninterrupted power supply units and for generators. He said that his generator orders cannot even get onto waiting lists of South African suppliers for at least fourteen weeks, so he is looking to source generators from China, other Asian countries, Europe, and the United States. He suggested that companies might want to consider switching to solar generation.

13. (SBU) The Managing Director of Citibank raised his broader concern about the negative impact that the power cuts will have on Zambian businesses, and their ability to stay afloat financially. He also observed that, in addition to generating finance from higher electricity rates, ZESCO could consider a number of other financing options to fund new power projects.

Consensus on ZESCO's Poor Handling of Problems

14. (SBU) The roundtable attendees agreed that parastatal electricity supplier ZESCO is not confronting the problem with the degree of urgency it requires, nor is ZESCO effectively expressing the scale of the problem. As a result, many Zambian consumers, including in the private sector, have the sense that the problems are temporary and will be sorted out soon, but the reality is much grimmer. Many participants observed that industrial demand, led by new copper mines and smelters, will increase rapidly in the next year or two, and supply cannot keep pace. They expect serious shortages for the next several years. Some who had attended a recent meeting with the Managing Director of ZESCO reported that when business leaders asked ZESCO how it was planning to respond to the crisis, the MD turned the question back on them, asking "what are YOU going to do about this?" Such a reaction does not inspire confidence, the representatives stated.

## Indeni's Troubles Worsen Prospects

15. (SBU) The group agreed that as more and more businesses buy and run generators, demand for diesel fuel, which is already quite expensive, will rise. In the past, the government-owned refinery Indeni has had problems of its own, resulting in periodic fuel shortages. The government has recently run into difficulties and controversy over procurements of oil and financing of its oil purchases (Ref A), and as far as the business community understands, it has not finalized a long-term payment structure for oil purchases, meaning that future shipments might be interrupted, leading to shortages. Some of the representatives indicated that they had approached the GRZ to request that it consider removing duties and taxes on diesel fuel, in the interest of enabling more cost-efficient use of generators.

## Challenges to Copper Fabrication, Grain Milling

16. (SBU) The CEO of Luanshya-based metal fabricator, ZAMEFA, owned by Phelps Dodge/General Cable, told the gathering that his company's current power backup capacity on-site is 1.5 MW, but this is not enough to maintain full-fledged operations for a sustained period. Abrupt power stoppages are particularly problematic for continuous casting operations at the factory, although production of wire is not ruined by interruptions. ZAMEFA will expand captive power generating capacity at its facility, bringing the total to 4.5 MW. He also noted that when the power from ZESCO is working, it fluctuates wildly, which places tremendous stress on, and sometimes destroys, many types of equipment. As a result, ZAMEFA is also buying more equipment to regulate the voltage and minimize stress on metal fabrication equipment. The CEO raised one possible positive outcome from the region-wide power shortages: he thinks his operations are less adversely affected than those of his competitors in South Africa, and as a result, ZAMEFA might gain a competitive

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advantage and sell more in South Africa.

17. (SBU) The Managing Director of National Milling Corporation (NMC, owned by U.S. agribusiness company Seaboard Corporation) complained that ZESCO's load shedding is erratic and does not distinguish between industrial and residential users. Advance planning by ZESCO that enabled industrial operations to stop on a given day would be far more helpful for NMC. The MD said that the mill runs seven days a week, 24 hours a day, but ZESCO does not appreciate the needs of the company, Zambia's largest miller. He is now working with ZESCO to try to coordinate NMC's scaled-back operations with planned power cuts.

18. (SBU) Comment: Although Zambian residential electricity users believe that businesses are getting "special treatment," the business-industrial sector is also suffering from power cuts. The situation is likely to worsen, as ZESCO appears unable and/or unwilling to confront the problem.

MARTINEZ